COLUMBIA BASIN TRUST

a legacy
for the people

COLUMBIA BASIN TRUST SERVICE PLAN 2005/06-2007/08

January 31, 2005

The Honourable Richard Neufeld
Minister of Energy and Mines
Province of British Columbia

Minister:

On behalf of the Board of Directors and staff of the Columbia Basin Trust (CBT), I have the honour to submit our Service Plan for the years 2005-06 through 2007-08.

As mandated by the ***Columbia Basin Trust Act*** and the ***Columbia Basin Management Plan***, the primary business of CBT is to invest the funds received through the ***Columbia Basin Trust Act*** and the subsequent ***Financial Agreement*** dated July 27th, 1995. There are four core business areas through which investments and expenditures are made, and activities carried out, namely:

- Investment of the Basin Fund to (a) protect the capital and (b) provide income to deliver benefits to the people of the region.
- Investment of the Legacy Fund in power projects in the region as part of a joint venture partnership with the Province of British Columbia.
- Delivery of benefits to the people of the region to foster social, environmental and economic well-being.
- Corporate services that provide for effective and efficient operations.

In September of 2004 the Board of CBT decided to explore the sale of its joint venture power assets to BC Hydro. Once BC Hydro indicated their interest in exploring this option, the Board held a series of public meetings around the Basin as part of their due diligence. During the course of these meetings the residents of the Basin indicated firmly that they were not in favour of the proposed sale of its power assets to BC Hydro but were supportive of the Board's desire for independence from government. In response to the direction given by Basin residents during these community meetings the Board decided not to pursue the sale of CBT's power assets. As per direction from the Minister of Energy and Mines in January 2005, this Service Plan assumes that CBT will go forward on a status quo basis.

CBT has also revised the ***Columbia Basin Management Plan*** (the Plan). It consulted with its public in a series of community meetings held in June 2004 and has plans to use the Plan as a focus for a regional symposium in 2005. With these resident consultation processes completed, the Board will be approving the Plan and then it can be used like its predecessor to guide the operations of the organization.

The 2005/06-2007/08 Columbia Basin Trust Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of this Service Plan, including the selection of performance measures and targets. This Service Plan is consistent with the government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions, and identified risks as of January 2005 have been considered in preparing this Service Plan. I am accountable for ensuring the Columbia Basin Trust achieves its specific objectives identified in this Service Plan and for measuring and reporting actual performance.

On behalf of the Board of Directors and Staff, I thank you for your consideration of CBT's 2005/06-2007/08 Service Plan.

Yours sincerely,

Josh Smienk
Chair, Board of Directors
Columbia Basin Trust

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CORPORATE HISTORY AND OVERVIEW

Canada and the United States were facing two major challenges in the Columbia Basin after the Second World War – the "untamed" Columbia River was causing periodic and sometimes devastating flooding, and an upswing in the economy increased the need for energy sources.

In 1964, Canada and the U.S. ratified the ***Columbia River Treaty (CRT)***. The purpose of the CRT is to coordinate flood control and optimize potential electrical energy production in the Columbia River Basin in the United States and Canada. Under the CRT, Canada agreed to build three storage dams – Duncan (1968), Hugh Keenleyside (1969) and Mica (1975) – in the Canadian Columbia Basin. The CRT allowed for a fourth dam – Libby (1973) – to be built in the United States with a large portion of its reservoir in southeastern British Columbia.

In return for the storage of water, Canada is entitled to one half of the additional potential power generated at the American power plants on the Columbia River. The Province of B.C., which owns this "Canadian Entitlement of Downstream Benefits" sold the first 30 years of these benefits to a group of U.S. utilities for $254M U.S. The Province is now receiving the Canadian Entitlement for the remaining 30 years of the CRT.

As a result of the CRT:

- 2,300 people along the Arrow Lakes and the Koocanusa, Duncan and Kinbasket reservoirs were displaced.
- Sixty thousand hectares (500 square kilometers) of high-value, valley-bottom land was flooded.
- Numerous First Nations' archaeological and burial sites were submerged or buried.
- Areas that were critical to the cultural, economic and environmental well-being of the region were lost.

The region is still dealing with the on-going impacts from the rise and fall of water levels:

- Recreation on reservoirs is limited because of the large seasonal fluctuations of the water levels, thereby limiting potential economic development through tourism.
- Fish and wildlife species and populations are impacted by the loss of key habitat and this increases pressures on residual low elevation areas.
- Dust storms around reservoirs impact human health at times of low water.
- Transportation infrastructure in the region is more complex and difficult to maintain.
- Agriculture and forestry activities are limited due to the loss of fertile, low-elevation land.

By the early 1990's, people of the Columbia Basin became aware that an opportunity for public involvement might present itself. The sale of the first 30 years of B.C.'s share of the downstream benefits through the CRT was about to expire. Residents of the region felt local people should be given more say in matters concerning environmental, economic and social health.

Leaders from First Nations, local communities and the Province of B.C. worked together on an agreement that recognizes the continuing impacts from the historical management of water in this region. In 1995, the CBT was formed with a unique mandate to support the efforts of the people of the Basin to create a legacy of social, economic and environmental well-being in the region most affected by the CRT.

Through a financial agreement with the Province of B.C., the CBT was endowed with $295M, approximately five per cent of the downstream benefits owned by the Province of B.C. $250M of the capital is to be invested in joint venture power projects with the Province of B.C., with an additional $45M as endowment capital. Under the Financial Agreement, the CBT also receives $2M/year from the Province for operating costs for the years 1996 through 2010 (FY2011).

GOVERNANCE

The CBT is a regionally based Crown corporation operating in the southeast corner of BC. A Board of twelve (12) Directors governs the CBT, with regional governments (i.e. five regional districts and the Ktunaxa Kinbasket Tribal Council) each nominating a minimum of one and a maximum of four directors and the Provincial government nominating six directors to the Lieutenant Governor for final decision and appointment. All directors must be Columbia Basin residents. These directors provide policy direction, in accordance with both the ***Columbia Basin Trust Act*** and the ***Columbia Basin Management Plan***, the latter developed through broad public consultation with Basin residents. The Chief Executive Officer, in turn, is responsible for operational matters, performance review, and evaluation.

Appendix A includes an organization chart that highlights the functional areas and lines of responsibilities of CBT.

CORE BUSINESS AREAS AND ACTIVITIES

The primary business of the CBT is to invest the funds granted to it through the ***Columbia Basin Trust Act*** and the subsequent ***Financial Agreement*** dated July 27th, 1995. The Province of B.C. endowed CBT with capital of $45M (the Basin Fund), and another $250M (the Legacy Fund), payable in $50M annual installments, commencing in 2001, to be invested in power projects in the region. An additional $32M in sixteen annual installments of $2M is provided for operating costs in the developmental years, the final payment to be made in FY2011.

There are four core business areas through which investments and expenditures are made, and activities carried out, namely:

- Investment of the Basin Fund to (a) protect the capital and (b) provide income to deliver benefits to the people of the region.
- Investment of the Legacy Fund in power projects in the region as part of a joint venture partnership with the Province of B.C.
- Delivery of benefits to the people of the region to foster social, environmental and economic well-being.
- Corporate services that provide for effective and efficient operations through planning, monitoring, accounting and evaluation activities as well as the provision of ongoing administration, information technology, communications and human resource services.

In each of these core business areas, the CBT performs a stewardship role protecting the public interest and ensuring due diligence and accountability of public funds.

The two core functions of the CBT according to the original ***Columbia Basin Management Plan*** are:

- To invest the capital and manage the assets of the CBT and
- To spend the income earned from the CBT's investments to deliver benefits to the region.

These two functions are carried out through its two major programs:

- The Investment program and
- The Delivery of Benefits program which supports Basin residents' social, environmental and economic initiatives.

Both programs are frequently delivered in partnership with other organizations and agencies in the Basin which have similar interests to CBT in the region. This means that CBT has a large number of regional organizations as partners and delivery agents who administer on

behalf of CBT a significant number of its programs and initiatives. For example, in the Delivery of Benefits program, literacy needs in the Basin are being addressed through funding to community literacy programs like Mother Goose delivered through a partnership arrangement with the Columbia Basin Alliance for Literacy. This approach to program delivery was undertaken for three major reasons:

- to live up to our corporate value of collaboration,
- to avoid duplicating what other regional organizations can do and
- to build community and organizational capacity in the Basin.

Table A provides an overview of this year's current staffing and funding for each of CBT's business areas.

Table A: Business Overview

Funding	Core Business Areas	Service Allocation
Provincial government, investment in power projects $50M per year to a total of $250M $26M paid in 2000 (half the book value of expansion rights for the Brilliant and Waneta dams)	Management of joint venture power investment activities (1.5 FTE's)	$50M per annum invested in power projects. CBTE currently has investments in the Brilliant Dam, the completed Arrow Lakes Generating Station, the Brilliant Expansion Project currently under construction and rights to develop additional power capacity at Waneta Dam.
$45M endowment capital	Management of non-power investments (2 FTEs)	$45M invested in region to industry standards Capital increased to $52M to match inflation
Income from Power and Non-Power Investments	Delivery of benefits to region (9.5 FTEs)	FY06 allocation $5 M per annum delivered in benefits to region
Provincial government contribution of $2M for operations support Income from investment	Corporate Services: Administration, Planning, Information Technology, Monitoring and Evaluation, Communications, Accounting (12.5 FTEs)	Corporate operations $3.8 M

LOCATION OF OPERATIONS

Columbia Basin Trust serves the southeast corner of B.C., which is the region most affected by the dams built under the Columbia River Treaty. Its boundaries are generally defined by those watersheds of the Columbia River which flow into the Columbia River within Canada, as outlined in Figure 1. The topography is characterized by four north-south mountain ranges, making transportation and communication infrastructure challenging. The CBT has 25.5 FTE's in its four office locations: Nakusp, Golden, Cranbrook and the corporate head office in Castlegar located at Suite 300 445-13 Ave. Castlegar, B.C. V1N 1G1. See map following.

COLUMBIA BASIN TRUST REGION
North
MICA DAM
REVELSTOKE DAM
Revelstoke
COURSIER DAM
SPILLIMACHEEN DAM
Golden
Edgewater
Radium
Invermere
Columbia Lake
DUNCAN DAM
Headwaters
(Canal Flats)
Nakusp
Burton
New Denver
Silverton
WHATSHAN DAM
Fauquier
Kaslo
A SOUTH SLOCAN DAM
B LOWER BONNINGTON DAM
C UPPER BONNINGTON DAM
D CORRA LINN DAM
Edgewood
Slocan
Kimberley
ABERFELDIE DAM
Cranbrook
Sparwood
Fernie
Nelson
ARROW LAKES GENERATING STATION
KEENLEYSIDE DAM
BRILLIANT DAM
Castlegar
Salmo
Trail
Warfield
Rossland
Kootenay Lake
Creston
Baynes Lake
ELKO DAM
CANADA
U.S.
Eureka
WANETA DAM
SEVEN MILE DAM

Figure 1

COLUMBIA BASIN TRUST REGION
North
MICA DAM
REVELSTOKE DAM
SPILLIMACHEEN DAM
COURSER DAM
DUNCAN DAM
Headwaters
KHATSHAN DAM
A SOUTH SLOCAN DAM
B LOWER BONNINGTON DAM
C UPPER BONNINGTON DAM
D CORRA LINN DAM
ARROW LAKES GENERATING STATION
KEENLEYSIDE DAM
BRILLIANT DAM
ASERFELDE DAM
ELKO DAM
CANADA
U.S.
WANETA DAM
SEVEN MILE DAM

Figure 1

PRINCIPLE MARKETS AND CLIENTS SERVED

Columbia Basin Trust serves residents of the Columbia Basin by:

1. Management of CBT's assets, through the Basin Fund and including monies allocated by the Province for joint venture power projects in the Legacy Fund.
2. Using the income earned from CBT's investments, deliver benefits to the region in the areas of economic development, social well-being, and preservation, protection and enhancement of the environment, without relieving governments of their obligations.

PUBLIC PURPOSE SERVED

CBT was created through the ***Columbia Basin Trust Act*** to support the efforts of the people most affected by the *Columbia River Treaty* to create a legacy of social, economic and environmental well-being and to achieve greater self-sufficiency for present and future generations through its investments in the regional power projects; its non-power investments and through its delivery of benefits from the income earned from these investments. Its unique mandate and its near decade of experience in regional development work has sparked interest in its operations outside its borders. As a result its Board members and staff have been invited to speak about its purpose, efficacy and operations to a wide variety of Canadian and international audiences.

STRATEGIC CONTEXT

VISION

The Columbia Basin is a place where social, environmental and economic well-being is fostered, where collaborative relationships and partnerships exist among stakeholders and form the basis for social and economic activities, and where the economy is diverse, resilient and energized.

MISSION

The CBT supports efforts by the people of the Basin to create a legacy of social, economic and environmental well-being and to achieve greater self-sufficiency for present and future generations.

VALUES

A set of values governs the management and operations of CBT and consists of:

Inclusiveness:

- Include the people of the Basin in planning and decision-making.

Collaboration:

- Work with the public and other agencies and organizations.

Respect for diversity:

- Respect the history and diversity of the people and communities of the Basin.

Responsibility:

- Taking into account the Basin residents' economic, environmental, social and sustainability values, the CBT will openly and explicitly balance maximizing benefits and minimizing negative impacts.

PLANNING AND OPERATIONS CONTEXT AND KEY STRATEGIC ISSUES

The Columbia Basin region, along with the rest of the province and the country, as well as globally, has been subject to forces of change. These changes have created both opportunities and challenges for the CBT that impact upon its ability to achieve the vision, goals and objectives as identified in this plan. The following outlines the external and internal forces and influences that affect the region and the work of the CBT.

External Environment

As in previous Service Plans, the external challenges and opportunities with which CBT is faced, and that need to be accounted for in the formulation of strategies, can be categorized as follows:

- Economy
- Infrastructure
- Finance
- Basin residents' perceptions and challenging expectations
- Balancing capacity building with fairness

Economy

The economy of the Basin region like rural economies elsewhere has been facing the challenge of moving away from its traditional reliance on primary industries in forestry and mining. Tourism is playing a greater role in the region's economy but many external factors affect the economic benefit coming to the region from tourism. These external economic forces continue to present challenges and risks that affect the planning context in which the CBT operates. The CBT is working with Basin businesses to seek opportunities to diversify Basin economies from the traditional reliance on primary industries.

Infrastructure

In the rural, mountainous area that defines the Columbia Basin, communication technology infrastructure is expensive and the lack of it within the region acts as a barrier to the establishment of high technology industries. Difficult winter driving conditions, high passes and narrow roads also act as a barrier to business location and investment. Air transportation in the West Kootenays is often unreliable. The geography of the region has also been changed by the reservoirs behind the dams which have disrupted regional transportation. This geography while presenting these transportation and communication challenges also provides the region with a natural setting and lifestyle which is attracting many to the region.

Finance

There remains a general reluctance on the part of traditional commercial lending institutions to lend money to new and expanding businesses in rural Southeastern B.C. which affords the CBT with the opportunity to offset this reality somewhat by making capital available to businesses in the Basin in cooperation with local financial institutions

Basin Residents' Perceptions and Challenging Expectations

Basin residents have become more aware of the CBT and as that awareness has grown so too have their perceptions and expectations of the CBT. The CBT has a history of working to include Basin residents in its decisions and this leads to a high sense of ownership of the organization with many and often contradictory opinions about the organization's operational and policy decisions. The CBT is working to ensure Basin residents have a clear understanding of its abilities, resources and limitations.

Balancing Capacity Building with Fairness

The Basin is made up of different geographic communities; urban, unincorporated and rural areas as well as many different communities of interest. As such the region is very heterogeneous. The implications of this diversity are substantial in the context of the CBT moving toward a capacity building approach to program and service delivery. The residents of the different communities have expectations that they will receive a fair share of the CBT funding compared to the other communities and the idea of sharing among communities equally may conflict with a capacity building approach. The CBT is changing the organizational focus from strategic program delivery to working with communities to build capacity and identify community priorities and projects in which the CBT can participate.

Internal Environment

The key challenges and opportunities within the CBT's internal environment that influence planning include:

- Successfully managing change
- Basin Fund tensions
- Meeting challenges inherent in our delivery model, mandate and working in a rural region

Successfully Manage Change

While change is a necessary part of all organizations, the CBT's mandate and mission make change particularly characteristic of the organization. As such it is often facing significant changes over the time period of its service plans. One of its key challenges will be to successfully manage these changes. Its success in meeting its mandate will come from the degree to which it understands and responds to these changes.

Basin Fund Tensions

The investment of the Basin Fund has to combine safeguarding the capital while investing in the Basin, with the side effect of stimulating the economy while providing an income for the Delivery of Benefits program. The limited viable investment opportunities in a small rural region make this challenging but at the same time create for the organization an opportunity to be an alternate vehicle of investment for businesses in the Basin.

Meeting challenges inherent in our delivery model, mandate and working in a rural region

The Columbia Basin is a rural region with many small communities. There is a limited amount of accessible information about these communities to assist the CBT in identifying and addressing regional and community priorities. The CBT has a very broad mandate and operates with an intentionally small staff contingent, increasing its challenges with respect to setting and meeting priorities. It also conducts many of its activities by contracting and/or partnering with a large number of local organizations and agencies, increasing the challenge around accountability.

Goals, Objectives, Strategies, Measures and Targets

The following outlines the goals, objectives, strategies, performance measures and targets for the CBT for the period FY2006-FY2008. These planning components will guide the core business areas of the organization, specifically the Investment Program, Delivery of Benefits, and Corporate Services. The plan reflects statements of policy, procedure and direction as adopted by the CBT's Board of Directors.

CORE BUSINESS AREA	STRATEGIC GOALS
INVESTMENT PROGRAM	**Basin Fund Goals:** 1. Maximize the expected return of the assets, subject to preserving the real value of the capital over the long-term with an acceptable degree of risk. 2. Enhance economic self-sufficiency in the Basin. **Legacy Fund Goal:** 1. Maximize the expected return of assets, subject to preserving the real value of the legacy capital with a relatively high degree of certainty to generate income to fund the Delivery of Benefits program.
DELIVERY OF BENEFITS	1. To deliver benefits which serve to strengthen the social, economic and environmental well-being of the Basin, its residents and communities and promote self-sufficiency.
CORPORATE SERVICES	1. Support and enable CBT Board and staff to deliver the investment and delivery of benefits programs effectively.

CORE BUSINESS AREA 1 – INVESTMENT PROGRAM

The CBT is a "Government corporation" under both the *Financial Administration Act* and *the Budget Transparency and Accountability Act*. CBT has mandated the governance and management of power related investments through its subsidiary CBT Energy Inc. (CBTE). The strategic direction including the goals, objectives, strategies and performance measures for CBTE are included in Appendix B, CBTE Service Plan. This section of the CBT service plan outlines only the non-power investment goals and objectives.

GOALS/OBJECTIVES

1. To maximize the expected return of the assets, subject to preserving the real value of the capital over the long-term with an acceptable degree of risk.
2. Enhance economic self-sufficiency in the Basin (subject to maintaining the real value of the capital over the long-term).

STRATEGIES

Risk Parameters:

The Board recognizes the greater inherent risk associated with the Basin Fund. Greater risk is expected to come from one or more of the following expected characteristics of the investment opportunities within the Basin Fund at any one point in time:

- Higher operating risks.
- Higher financial risks.
- Greater investment structure complexity.
- Greater liquidity risk.
- Reduced ability to diversify unsystematic risks.

(It is recognized that not all investment opportunities will exhibit the above characteristics.)

Investment Guidelines

1. Given that economic conditions and investment opportunities within the Basin region will primarily drive investment within the Basin Fund, no formal asset allocation guidelines have been established for the Basin Fund. The Investment Manager(s) will, however, seek to diversify investments within the region by asset class, geography (within the Basin), industry and company.
2. Investments made within the Basin will have the secondary objective of creating and stimulating economic value and activity over the long term for the benefit of the Basin and its residents.
3. The Investment Manager(s) will consider secondary benefits as part of the investment evaluation process only after the investment is considered appropriate based upon the financial due diligence.

RISK MANAGEMENT STRATEGIES

1. Performance will be calculated in accordance with Chartered Financial Analyst (CFA) Institute standards as amended from time to time.
2. Investments placed in accordance with Board-adopted investment policies and

procedures to mitigate risk.

3. Watson Wyatt World Wide will be contracted on an as needed basis to work with CBT's Investment and Audit Committees to provide advice and guidance for their decision-making processes and to assist in ensuring consistency with CBT's investment policy.
4. To enhance the economic self-sufficiency of the Basin by strengthening and diversifying the regional economy so long as in the longer term, the real value of the capital (original value of the capital protected against inflation) is maintained. Making this goal subject to meeting the financial goal mitigates the risks in the Basin Fund tensions.

PERFORMANCE MEASURES	TARGETS			
	04/05 FORECAST	YEAR 1 05/06	YEAR 2 06/07	YEAR 3 07/08
Rate of return	**1.8%***	Compound return on non-power investments measured over rolling 5-year period of 1 %	6% per annum measured over rolling 8-year periods	6% per annum measured over rolling 8-year periods

* This figure differs from previous forecasts due to an allowance against the investment in Heatwave Drying Systems.

CORE BUSINESS AREA 2 - DELIVERY OF BENEFITS

GOAL/OBJECTIVES

To deliver benefits which serve to strengthen the social, economic and environmental well-being of the Basin, its residents and communities.

STRATEGIES

1. Consolidate changes to the program delivery model and ensure consistency between the delivery model and the goals and objectives of the Delivery of Benefits program.
2. Gather information and indicators to determine social, economic and environmental well being in the Basin required to support the Delivery of Benefits program.
3. Work with staff and sector committees to generate information to support addressing community, regional and cross-sectoral priorities and issues.
4. Build effective relationships with individuals, communities, groups and organizations in the Basin.
5. Develop delivery processes to ensure that CBT is effectively engaged in Basin communities and the issues of the residents of the Basin.
6. Refine application, decision-making and reporting processes and procedures to increase efficiency and meet the needs of grantees.
7. Develop and implement processes and procedures to increase the ability of grantees to determine and report on the results of their projects.

RISK MANAGEMENT STRATEGIES

1. Provide staff training to increase the effectiveness of CBT's facilitation role and in balancing residents' expectations with constraints of funding levels and addressing the issue of fairness within a capacity building model.
2. Inform and educate Basin residents to increase knowledge and awareness of CBT's funding limitations and the benefits of a community capacity building model of delivery.
3. Inform and educate Basin residents to increase knowledge and awareness of CBT's capacity building model of delivery, which will provide benefits beyond funding.
4. Review organizational resources to assist in meeting internal and external demands on CBT.

PERFORMANCE MEASURES	TARGETS			
	04/05 ACTUALS	YEAR 1 05/06	YEAR 2 06/07	YEAR 3 07/08
1. Residents rate the consistency between CBT delivery of benefits funding decisions and *Columbia Basin Management Plan*, and Board priorities as measured by: ▪ annual response to staff from community forums/focus groups ▪ analysis of responses from: - comment section of website - feedback from Report to Residents ▪ evaluation information from initiatives	1. Strategies undertaken. 2. Data collection methods established	1. Baseline rate of consistency established. 2. Changes made to future priorities and/or funding decisions based on	1. Rate increased by 2% from baseline. 2. Changes made to future priorities and/or funding decisions based on	1. Rate increased by 2% from baseline. 2. Changes made to future priorities and/or funding decisions based on

		information coming out of performance measures.	information coming from performance measures.	information coming from performance measures
2. Effectiveness rating on CBT's delivery processes by those organizations CBT works with through the delivery of benefits program	Develop pilot surveys to measure effective delivery of CBT delivery of benefits program.[1]	Conduct two additional evaluations, of delivery processes, using appropriate data collection tools.	Conduct two additional evaluations of delivery processes	Conduct two additional evaluations of delivery processes
3. Rating of perceptions of grantees on survey.	Explore and budget for ways of participating in a grantee perception survey.[2]	Average rating compared other Foundations' performance as measured by Center for Effective Philanthropy (CEP) Grantee Perception Report (CEP Grantee Perception Report Average Rating).	1. Changes made as a result of information coming out of the grantee survey. 2. Develop ways to undertake periodic evaluations of grantees perceptions	Implement process for periodic evaluations of grantee perceptions
4. Percentage of funds granted through programs consistent with CBT's new monitoring and evaluation policies and procedures.	2 pilot projects are underway	25%	40%	50%

1. The target reported in the 2005-2007 service plan was to develop a survey instrument to measure effectiveness however, as the work began it was discovered that given the variety of delivery processes used, a single survey or methodology will not capture the range of delivery methods used. Therefore, two pilot projects, one which measured the effectiveness of the application and support, processes in place for the environmental granting programs and another examining the effectiveness of the delivery of our water initiatives, were undertaken. The targets for subsequent years are to increase the number of these evaluations until the entire range of delivery methods is reviewed.

2. CBT remains committed to this measure, but the targets in this service plan have been decreased from those reported in the 2005-2007 Service Plan and 2004 Annual Report. The targets established in the 2005-2007 service plan were found to be overly optimistic organizational capacity at that time and a reduction in the staff available to implement the policies and procedures, work is underway to address this.

CORE BUSINESS AREA 3 - CORPORATE SERVICES

GOAL/OBJECTIVES

To support and enable CBT Board and staff to deliver the investment and delivery of benefits programs effectively.

STRATEGIES

1. Develop service area reviews and implement annually.
2. Make changes to the provision of services based on information coming out of the

RISK MANAGEMENT STRATEGIES

1. Develop effective change management strategies by:
   - planning sessions to ensure strong and consistent strategic direction.
   - developing strong internal communications processes.
   - developing effective information gathering and dissemination processes.
   - maintaining strong relationships with Basin residents, organizations and agencies.
2. Adhere to investment policy to ensure sound investment managagement and review policy on accounting for write-downs or losses to ensure transparency and accurate reporting
3. Provide effective staff training particularly around capacity building and sound contract management.
4. Develop a communications strategy to inform Basin residents of the Minister's January 2005 direction to go forward on a status quo basis with CBT and CPC as separate corporations.

PERFORMANCE MEASURES	TARGETS			
	04/05 ACTUALS	YEAR 1 05/06	YEAR 2 06/07	YEAR 3 07/08
Proportion of staff rating each service area service provision as effective.	Data collection methods for service area reviews established was targeted but not met.[1]	Data collection methods for service area reviews established	1.Overall baseline established. 2. Baseline for service areas established. 3. Report changes made based on information coming out of the service area review	1. Increase of 2% on overall and each service area baseline 2. Report changes made based on information coming out of the service area review for each service

			for each service area	area.

[1] CBT remains committed to this measure, but was unable to meet the 2005 target. The target was found to be overly optimistic given the organizational capacity at that time. Since then there has been a reduction in the staff available to implement the policies and procedures but this is presently being addressed.

ALIGNMENT TO THE GOVERNMENT'S STRATEGIC PLAN

The CBT is accountable to the residents of the Basin. However, as a regionally based Crown corporation funded through the Financial Agreement with the Province, the CBT ensures that its Service Plan is consistent with the Province's Strategic Plan.

Because of the CBT's regional focus, its Vision for the Basin is a microcosm of, and therefore directly aligned with, the Vision for the Province.

The Provincial Strategic Plan three primary goals areas include:

1. A strong and vibrant provincial economy.
2. A supportive social infrastructure.
3. Safe, healthy communities and a sustainable environment.

The following outlines the consistency between the goals of the CBT and those of the Province:

PROVINCIAL STRATEGIC GOAL	CORRESPONDING CBT GOALS
A strong and vibrant provincial economy	**Basin Fund:** Maximize the expected return of the assets, subject to preserving the real value of the capital over the long-term with an acceptable degree of risk. **Legacy Fund:** Maximize the expected return of assets, subject to preserving the real value of the legacy capital with a relatively high degree of certainty to generate income to fund the Basin Fund and the Delivery of Benefits program. Enhance economic self-sufficiency in the Basin.
A supportive social infrastructure	The goal of the delivery of benefits strategic area is to enhance the ability of the CBT to strengthen the social, economic and environmental well-being of the Basin, its residents and communities.
Safe, healthy communities and a sustainable environment	The goal of the delivery of benefits strategic area is to enhance the ability of the CBT to strengthen the social, economic and environmental well-being of the Basin, its residents and communities.

SUMMARY FINANCIAL OUTLOOK

Table 1: Summary Financial Outlook 2004/05 - 2007/08				
	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
REVENUES				
Deposits and Securities	623,000	574,000	520,000	500,000
Business Loans	1,200,000	1,350,000	1,550,000	1,670,000
Real Estate	290,000	500,000	520,000	620,000
Venture capital	-	-	-	1, 500,000
Power project	6,370,000	8,090,000	11,602,000	13,466,000
Provincial government contribution to operations	2,000,000	2,000,000	2,000,000	2,000,000
Total Revenues	**10,483,000**	**12,514,000**	**16,192,000**	**19,756,000**
EXPENDITURES				
Corporate operations	3,800,000	4,100,000	4,200,000	4,200,000
Investment write-downs	1,200,000*	-	-	-
Delivery of Benefits	5,000,000	5,000,000	7,000,000	12,000,000
Total Expenditures	**10,000,000**	**9,100,000**	**11,200,000**	**16,200,000**
NET INCOME	**483,000**	**3,414,000**	**4,992,000**	**3,556,000**

* The $1.2 million writedown relates to an investment in Heatwave Drying Systems.

Key Assumptions	Forecast Risks and Sensitivities
1. Deposits and securities income: 3.0% per annum on year end balance	Fluctuating interest rates have a direct effect on the income of deposits and securities, business loan income, and power project income.
2. Business loan income: 6.5% per annum after providing for a capital maintenance provision of 2%	Power project borrowing rate is affected by fluctuations in interest rates.
3. Power project short-term borrowing rate is 5.3%.	An increase or decrease in power project rates could increase or reduce power project revenues.
4. Power projects: Interest rate on short term investments is 2 - 3% (Fiscal Agency Agreement borrowing rate)	

Capital Expenditure Schedule

Fiscal 2005-2008

Consolidated
Capital Spending
(Unaudited, in thousands)

Please note that the figures in the Capital Expenditure Schedule reflect CBT's 50 per cent share in the joint venture power projects, and are subject to periodic review and approval by the Power Project Planning Joint Venture Committee of CBTE and CPC.

	Forecast FY2005	Forecast FY2006	Forecast FY2007	Forecast FY2008
ARROW LAKES POWER CORPORATION				
Arrow Lakes Generating Station	1,634	476	276	246
BRILLIANT EXPANSION POWER CORPORATION				
Brilliant Expansion	38,039	13,168	9,572	260
POWER PROJECT PLANNING				
Waneta Expansion	2,011	3,029	3,725	68,204
Other Projects	65	65	65	65
General Power Project Planning	200	200	200	200
BRILLIANT POWER CORPORATION				
Brilliant Sustaining Capital/Upgrades	851	1,939	2,384	1,894
Brilliant Terminal Station (BTS)	1,864	250	36	36
COLUMBIA BASIN TRUST CORPORATE				
Computers, furniture, equipment	200	200	200	200
TOTAL	44,864	19,327	16,458	71,105

Power Investments

Columbia Basin Trust and the Province of BC through its agent, Columbia Power Corporation (CPC), are in a joint venture partnership investing in power assets in the Columbia Basin. This is an equal partnership and income from the power sales is shared 50-50 between CBT and CPC.

Arrow Lakes Generation Station

The Arrow Lakes Generating Station is a powerplant that consists of two generating units with a capacity of approximately 185 megawatts that will deliver approximately 760 gigawatt hours of electricity annually. Water enters the powerplant via a 1,400 metre approach channel bypassing the existing Hugh Keenleyside dam. The project also consists of a 49 km 230 kv transmission line that extends from the powerplant to the BC Hydro substation at Selkirk.

In May 2004, damage occurred to a portion of the concrete lining at the bottom of the intake channel of the Arrow Lakes powerplant, resulting in the temporary shut down of both generating units. The cause of the damage is currently under investigation and the appropriate steps have been taken to prevent further damage to the channel and to carry out the necessary repairs in three stages. The first stage involves immediate emergency repairs, the second stage involves interim operation repairs to enable the safe resumption of power generation and the third stage involves permanent, long-term repairs as required to ensure the integrity of the approach channel is maintained. The first two stages of repair have been completed and production of power was resumed in August 2004. The final financial impact of the channel damage cannot be determined at this time. Recourse under insurance policies and warranties under the design-build contract are currently being pursued to ensure that obligations to creditors and regulators will be met.

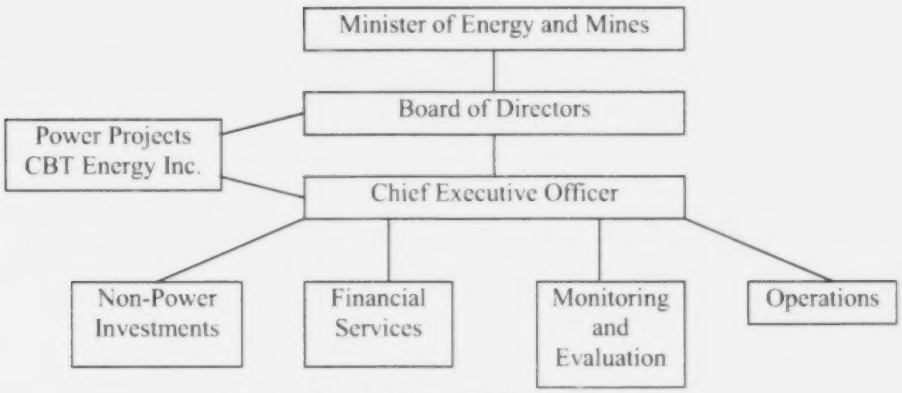
Brilliant Expansion

The Brilliant Expansion project features the construction of a second powerplant, with a capacity of 120 megawatts, adjacent to the Brilliant dam. Construction work commenced in April 2003 and it is expected that this project will be substantially complete in September 2006. The Brilliant Expansion Consortium, consisting of the Skanska-Chant Joint Venture, SNC-Lavalin and Skanska International Civil Engineering, is constructing this project under the terms of a design-build contract.

Waneta Expansion

The Waneta Expansion project is a proposal to install an additional power generation facility with a capacity of up to 380 megawatts at the existing Waneta dam. Teck Cominco, from whom CPC purchased the rights in 1994 to undertake an expansion, owns the Waneta dam. One half of the rights were transferred to CBT in 2000. It is projected that construction of the Waneta Expansion project will take place over a four-year period with the construction costs estimated to be approximately $300 million dollars.

Appendix A: Organization Structure



Functional Areas

Financial Services	Non-Power Investments	Power Projects (CBTE)	Monitoring and Evaluation	Operations
• Financial management and reporting. • Oversees accounting, budgeting and payroll • Risk management and assessment • Compliance with legal and tax regulations	• Basin Fund of $52M endowment capital invested in region to best of private practice standards. • Basin Fund kept intact. • Income provided to delivery of benefits program	• Works in joint venture partnership with Columbia Power Corporation to build, upgrade and expand and maintain power projects owned by the joint venture. • Provides income to delivery of benefits program	• Design and build planning frameworks and establish and carry out monitoring and evaluation processes for delivery of benefits and corporate areas of responsibility.	• Oversees delivery of benefits program to the region to enhance social, environmental and economic well-being in the Basin. • Provides administrative services, staff recruitment, compensation, job evaluation, occupational health and safety. • Oversees corporate communications and information technology functions.

Appendix B - CBT Energy Inc. Service Plan 2006 –2008

OVERVIEW

CBT Energy Inc. (CBTE) is a wholly owned subsidiary of Columbia Basin Trust (CBT). CBTE was incorporated on September 7, 2000 under the *Canada Business Corporations Act* and was continued in the BC jurisdiction as a corporation on April 30, 2004. According to the 1995 Financial Agreement with the Province, both the CBT and Columbia Power Corporation (CPC) would each receive $250M over ten years and the Brilliant and Waneta Expansion Rights ($26M each), to invest in the Keenleyside (now Arrow Lakes Generating Station), Brilliant Expansion and Waneta Expansion power projects. The CBT and CPC (a Crown Corporation and agent of the Province) became joint venture partners in 1996, with CPC contracted to act as the Manager. Since then, the joint venturers have purchased the Brilliant Dam from Teck Cominco and have completed significant upgrades to the Brilliant Dam facility. The joint venture partners have also completed construction of the Arrow Lakes Generating Station ("ALGS"), have constructed a new substation and have commenced construction on the Brilliant Expansion.

In order to effectively manage CBT's fifty per cent interests in the joint venture power projects, in part by securing the appropriate expertise to participate in the energy industry, CBT incorporated CBTE in 2000. Section 4 of the *Columbia Basin Trust Act* states that CBT is "to invest, spend and otherwise manage the regional allocation and the corporation's other assets, including any assets that may be transferred to it, for the ongoing economic, environmental and social benefit of the region." CBTE represents the mission and vision of the CBT in the energy area. Through CBTE's oversight of the Manager, CBT is assured that income will be returned from its assets to fund the benefits described in its enabling legislation.

A Board of five Directors currently governs CBTE and oversees its operations. The Board is composed of CBT representatives and energy industry experts, who ensure that rapidly evolving market conditions are taken into account when business planning. In addition, the CBTE Board of Directors guarantees that CBT uses diverse views to evaluate the opportunities and risks associated with power project development, investment and management. The CBT Board annually confirms the membership of the CBTE Board. The CBTE CEO, appointed by the CBTE Board, is responsible for the execution of the Board's directives.

Representatives of the CBTE Board, appointed by the CBTE Board, account for half of the membership of the joint venture management committees that manage the joint venture power projects. CPC appoints the remaining half of the joint venture management committees.

In January 2004, the Ministry of Energy and Mines announced changes to the existing joint venture power project delivery structure, which would combine CBT's power project activities and CPC into a CBT subsidiary. In September 2004, CBT announced that a sale of its power projects to BC Hydro might be considered and sought input from Basin residents on the potential sale. Through a series of public meetings held by CBT in November 2004, Basin

residents indicated to the CBT that they did not wish to pursue the potential sale and CBT therefore ceased to consider the sale. In January 2005, the Minister of Energy and Mines directed that CBT and CPC should continue as separate corporations under the status quo.

Vision

In the future, CBTE envisions a pursuit of development options in the energy industry complementary to its joint venture power projects, including the provision of support services to large energy users, other utilities and other independent power producers. Given the recent completion of ALGS and the ongoing construction on the Brilliant Expansion Project, CBTE's focus is shifting from power project development to include operation, trading and management.

Mission

In order to return long-term income to the CBT, CBTE invests in energy and power related projects with its joint venture partner, CPC, and oversees CPC's management of the development, construction and operation of these investments. CBT uses the income earned through CBTE's investments to create a legacy of social, economic and environmental well-being in the Basin.

Values

The following values guide CBTE's operations:

- Adherence to the best of private sector practices.
- Accountability for its actions and its results to CBT.
- Adherence to the mission, vision, goals and objectives of CBT in any actions undertaken.
- Dynamic and inclusive planning processes, taking market trends and developments into account.
- Open avenues of communication with partners and associates.

PLANNING CONTEXT AND KEY STRATEGIC ISSUES

In the *Columbia Basin Trust Service Plan 2005 - 2007*, CBTE cited several potential risks and opportunities to its investments. Some of these same risks and opportunities still exist and CBTE shall continue to work independently and with its joint venture partner to address these risks and opportunities in a timely manner.

The Office of the Comptroller General, Ministry of Finance, is reviewing several issues related to CBTE. CBTE is awaiting the final report and will make a full response to the Office of the Comptroller General at that time.

Market and Regulatory

External factors such as climate, oil and gas prices, availability of transmission and demand for electricity all affect the environment in which power from the joint venture projects is produced and sold. CBTE therefore regularly analyzes the overall energy market and factors its analyses into its oversight of CBT's interests in the joint venture power projects.

The implementation of the provincial energy policy continues to shape the energy market in B.C., including CBTE's access to transmission and therefore its ability to sell the energy produced at its facilities. In order to allow CBTE to sell its power in an optimal environment, the CBTE Board assesses whether or not participation in regulatory proceedings is necessary.

Analysis and participation in the energy market is particularly important in the context of this service plan, as the Brilliant Expansion will begin producing power in 2006, and only 40% of the output has been committed under long-term contract.

Financial

Together with CPC, its joint venture partner, CBTE must, on occasion, raise financing for the construction of its joint venture generating assets. In order to maintain its ability to distribute income to CBT, CBTE performs due diligence on all possible financial transactions and working with CPC to secure financing in the long-term interests of the joint venture partners.

Outages

Outages at the joint venture power projects could disrupt the distribution of dividends from CBTE to CBT. In spring 2004, the floor of the approach channel to ALGS was damaged and operations at ALGS were shut down while repairs were undertaken. Operations resumed in August 2004. Long-term repairs at ALGS may be required and such work might entail another shut down at ALGS.

Goals, Objectives, Strategies, Measures and Targets

GOAL
Increase the amount of dividends distributed to the CBT.
OBJECTIVES
1. Earn increasing levels of income through power sales from the existing joint venture power projects. 2. Preserve the real value of the joint venture power projects.
STRATEGIES

• Ensure CPC fulfills its duties and responsibilities as Manager of the joint venture power projects.
• Liaise with the Board of Directors of CBT and staff members of CBT when necessary on issues encompassing common interest areas.
• Monitor energy industry developments in B.C. and North America and participate in the development of the energy industry when deemed necessary by the CBTE Board.
• CBTE will:
  ○ Review and analyze market conditions on an ongoing basis.
  ○ Recalibrate CBTE forward electricity price curve on a regular basis.
  ○ Ensure CBTE Board is aware of all energy industry developments and assesses the significance of such developments in the context of the joint venture power

projects.
    - Intervene in regulatory proceedings as directed by the CBTE Board.
    - Monitor the viability of alternate energy resources for possible development/investment if such resources are cost competitive.
- Retain sufficient access to energy expertise for CBTE Board of Directors. (Expertise in areas of power project investment and management, electricity trade and natural gas markets.)

LINK TO THE CBT

Objective 1 allows CBT to attain its goals of maximizing the expected return of the Legacy Fund assets (which are composed of CBT's interests in the joint venture power projects) and of funding the Basin Fund and the Delivery of Benefits program.
As outlined in the Planning Context and Key Strategic Issues section, CBTE faces numerous risks as an owner and developer of power projects in the energy industry. In order for the CBT to preserve the real value of the Legacy Fund capital with a relatively high degree of certainty, CBTE must monitor and participate in the evolution of the industry within which that same capital is held and must maintain industry expertise on its board of directors.

PERFORMANCE MEASURES	TARGETS			
	04/05 FORCAST	YEAR 1 2006	YEAR 2 2007	YEAR 3 2008
Net income from joint venture power projects[1]	$6.370 million	$8.090 million	$11.602 million	$13.466 million

Alignment with Government's Strategic Plan

The *British Columbia Government Strategic Plan 2004/2005 – 2006/2007* sets out three main goals – a strong and vibrant provincial economy, a supportive social fabric and safe, healthy communities and a sustainable environment. CBTE's success will clearly aid the Province in attaining its goals over the next three fiscal years.

Affordable and reliable electricity is an integral aspect of the thriving private sector economy the Province intends to attain for its citizens. With the completion of ALGS in 2002 and the construction of the Brilliant Expansion (scheduled for completion in late summer 2006), CBTE generates the low-cost power to fuel economic growth in the technological and industrial sectors. Affordable power will aid in the attraction of businesses participating in these sectors to B.C.

Several aspects of the joint venture power projects support the Province's goal of maintaining a sustainable environment. Because the water going through ALGS is no longer spilled at the original Hugh Keenleyside Dam facility, total gas pressure is reduced downstream and fish habitat is thereby improved. The Brilliant Expansion will also make use of water currently

[1] The targets for Years 1 and 2 have changed from the *Columbia Basin Trust Service Plan 2005 - 2007* as a result of periodic updates to financial forecasts. Also, the wording of the performance measure has been changed from net income in power sales as the performance measure refers to net income from the joint venture power projects i.e. expenses subtracted from revenues to arrive at a net income figure.

spilled at the original facility and is therefore expected to have a similarly positive effect on fish habitat downstream. Furthermore, CBTE produces electricity using a renewable resource – water – rather than a non-renewable resource.[2] The completion of the Brilliant Expansion and the ongoing operations of ALGS and Brilliant Dam will therefore aid the Province in meeting its target of securing new electricity supply from environmentally responsible sources.[3] In fact, the joint venture entered into a 20-year sales agreement for 40 per cent of the Brilliant Expansion output through the BC Hydro green power generation call for tenders.

CBTE further supports the Province's goal of a supportive social fabric by generating the income the CBT uses to fund social, environmental and economic programs for the residents of the Columbia Basin.

[2] *Energy for our Future: A Plan for BC* defines renewable resources as "sources of energy that are inherently self-renewing, such as water power, solar energy, wind energy, tidal energy, geothermal energy, wood residue energy, and energy from municipal waste." (p. 41)

[3] The *British Columbia Government Strategic Plan 2004/05 – 2006/07* states that B.C. will have sustainable resources, measured in the amount of electricity produced from environmentally responsible sources. (p. 20)